

## **PART 3**

### **Analysis of individual case *Kiútprogram* ('Way out' programme) for microcredit and self-employment using the extended social grid framework**

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# 1. Introduction

In this study, I will analyse the explanatory power of the theoretical framework, the extended social grid model developed by CRESSI WP1 for a specific case of marginalization and a related social innovation, Kiútprogram. Regarding the theoretical framework, I will basically rely on the Report of Houghton Budd, Naastepad and van Beers (2014); particularly the studies by Nicholls and Ziegler (2014), Chiappero-Martinetti and von Jacobi (2014), Scheuerle, Schimpf and Mildemberger (2014), Heiskala (2014) and Lodemann (2014), and will not go back to the original sources unless it is necessary. I will not provide a summary of the theoretical framework assuming that it is well known.

For CRESSI WP2, I wrote a detailed case study on Kiútprogram (Molnár, 2015a) that will simply be referred to as 'case study' in this paper. Since the content of the case study is probably less known, I will summarize some of its important implications wherever necessary; verbatim quotations from the case study will not be noted for easier readability.

The target group of the programme are in the first place, but not exclusively, people of Roma origin and in productive age who live in deep poverty and are long term unemployed. The main objective of the programme is to facilitate self-employment (including agricultural primary production) applying a complex methodology, within which microlending is just a tool. The programme can be identified as an employment and not a microcredit project.

The location of the programme is Hungary, a postsocialist transition country. This particular context differs from mature market economies in many aspects; these differences must be considered during the analysis, requiring sometimes a more detailed explanation. However, a full review and analysis of postsocialist transition would far exceed the scope of this study.

When examining the explanatory power of the theoretical framework, I will mostly focus on critical deficiencies or the discrepancy between the current state of the theoretical construct and the actual case. Two specific topics have not been analysed sufficiently so far, I will cover them in more detail.

The first topic is the definition of social innovation. To my opinion, it has not been clarified yet if there was a difference between social innovation in general and social innovation for marginalized groups, and if the latter has any particular characteristics.

The second topic is about 'creating economic space'. A separate work package focuses on the *social innovation policy for the weak and marginalized*; however, in theoretical analysis, little emphasis was placed on the controversy that social innovation policy is formed by the same political power structure and institutions that might be partially responsible for marginalization. The theoretical analysis of this problem would also exceed the scope of this study; however, I will prove that this statement should be declarative instead of conditional in case of the Kiútprogram in Hungary, and will show the consequences of this fact.

In the first part of this study, I will analyse the marginalization process on its own for two reasons. First, without a detailed examination of the marginalization process, it is impossible to identify the appropriate intervention points of social innovation correctly, i.e., finding a way to stop the dynamics of mutually aggravating effects. Second, I wanted to examine how theoretical frameworks created so far can be applied to the marginalization of the target group of Kiútprogram, if these frameworks enhance a better understanding of the processes and if any changes should be requested.

## **2. The process of marginalization**

In Hungary (and several other CEE countries), the majority of the Roma are disadvantaged in almost all aspects of life: education, employment, income, housing, land ownership, or health condition. Moreover, they face discrimination mainly in the fields of education and employment. Open or covert prejudices against the Roma are visible in everyday life and in the media.

The case study discusses the interrelation of these factors in detail; here I review them from the aspect of the extended social grid model. During this analysis, I separate two phases at the socio-environmental level: how this current marginalized position came to exist and the mechanism of the reproduction of poverty. I will analyse both processes with consideration to Mann's power resources and Beckert's social grid models. Although both models are relevant in both processes, it should be noted that Beckert's model, the interrelated institutions, networks and cognitive frames, is more suitable for describing a given *status quo*, while Mann's power resources model is a more apt approach for structural changes.

### **2.1 The formation of the current marginalized position of the Roma**

Before World War II, the Roma were at the periphery of the predominantly agrarian society of Hungary, still, they had some sort of organic connection as service providers: musicians, peddlers, manufacturers and repairers of articles and accessories. They were part of the division of labour; however, these products and services did not have a central role in the production cycle.

The everyday life of the Roma was separate from the rest of the society, having a strong and well organized internal set of rules and social network. There were people within the Roma society responsible for being in contact with the outside world, too. Their separation, unique culture and different language of some groups created a special cognitive frame regarding the

Tzigane within the majority of the society<sup>159</sup>.

Considering Mann's original IEMP model, the Roma had no ideological, economic, military, or political power in the Hungarian society. Their unique, specialized products, particularly music, can be evaluated as some kind of artefactual power, and I believe that their internal social network nourished by this self-esteem and collective pride can be viewed as a power resource which cannot be fit into Mann's structure.

Two factors played crucial roles in the shattering of the Roma society: due to industrialization, many traditional Roma products and services got excluded from the market (effect of economic power); and the genocide during World War II (military power) partially crushed the social fabric of the Roma society.

World War II, the following regime change and the introduction of state socialism fully redesigned the structure of the Hungarian society. In this initial period, political and ideological power played a crucial role; later on, the significance of economic power gradually grew. Just to highlight some important details regarding the situation of the Roma: forced industrialization put an end to the significance of traditional products once and for all. Only the Gipsy music service survived, eventually to be diminished by rock music. The Roma did not benefit from land distribution, thus they could not participate in the agricultural cooperatives, a new organizing power of the transforming Hungarian countryside.

The extensive industrialization of state socialism required a large mass of unskilled workers with a low education level. The majority of the Roma became the members of this social group. The majority of village dwellers commuted to the closest industrial towns. During state socialism, it was obligatory for men to be employed. Thus the Roma became a part of the system – even if in a marginal position. Some opportunities for upward mobility became available depending on individual performance. Workplace networks were formed including both Roma and non-Roma members. Due to the limited yet regular income, many Roma families accumulated economic power resources, especially skilled workers.

The state did not take any consideration of the culture, customs or language of the Roma in any form. As a result, the majority of the Roma underperformed at school and did not exceed primary school education. Prejudices against the Roma also played a role in this. Both in case of the schools and the prejudices, the effects of ideological power can be discovered. However, the equalizing ideology of state socialism also had positive effects. As the education of the poor was supported, learning made it possible to break out of the marginalized position for the most gifted and motivated children. Workplace networks could also serve as a motivation to support the children's studies.

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<sup>159</sup> In the case study, I discussed in detail the question when the terms 'Roma' or 'Tzigane' are used Molnár (2015a, p. 15). When discussing the cognitive frame of the majority of the society, the term 'Tzigane' is appropriate.

Regarding housing, two important developments took place; both of them became very significant from a marginalization aspect after the regime change. As a part of the elimination program of Roma settlements, the state built new houses in villages for the Roma with a lower comfort level. These houses were healthier than the old slums, but lacked many features. On the other hand, more and more Roma – mostly skilled workers or those with higher education – could afford to move to newly built, privately owned houses due to state-sponsored, low interest loans.

In summary, the Roma started to get integrated into state employment and – to a lesser degree – education. Networks with both Roma and non-Roma participation were developed. These connections influenced the cognitive frames of both sides as learning about the others reduced prejudices. From the Roma's perspective, the attitude towards education started to change, affecting their integration into the labour market.

At the same time, networks within the Roma society were almost fully destroyed and most traditions were lost; this will become a significant aspect later on. Due to the commute, formerly tight family relations also weakened. The fact that most Roma employees were at the bottom of the employment hierarchy had a negative effect on their self-esteem. The formerly existing collective self-esteem as a power resource disappeared.

Using the analytic tools of the capability approach it can be stated that despite their marginalized position, upward social mobility became possible for those with adequate personal traits, primarily through the education system.

### *2.1.1 The effects of the regime change*

The shock caused by the regime change, the transition from centrally planned state socialism to democracy and market economy radically changed the political and economic power relations; although it was not rare that former political power became converted into economic power. New ideologies became dominant. The entire institutional system has transitioned and former social networks have changed to a great degree. On the surface, there were huge changes in the cognitive frame, too, but time has shown that this social force was the one transformed the least. The demand for paternalism, a caring state is still very strong in Hungarian society.

The unfolding of democracy, political and entrepreneurial freedom set free large amounts of energy, mostly among the highly educated, those in low or mid-level managerial roles, and urban youth – but for a considerable part of the Hungarian society the regime change first of all meant the emergence of mass unemployment. Within months, several hundreds of thousands lost their jobs, mostly poorly educated workers of non-profitable factories; the Roma constituted the highest proportion among them. Transition to the market economy inevitably introduced unemployment, but its extent was increased by the ideology of the elite

of the transition, i.e., that non-profitable factories should be eliminated as soon as possible and that for the sake of future development the sacrifice of mass unemployment was to be made. Once again this is an example for ideological power in action. Together with the example mentioned above (the regime change following World War II, into the opposite direction) it proves that Mann's original concept of ideological power is more adequate for the Hungarian situation than the cultural power version.

The fast and large drop of demand for unskilled workers created a competition within this group. Prodding prejudices against the Roma led to a competitive advantage for the non-Roma. Thus the institutional changes of the labour market resulted in the transformation of cognitive frames. For the Roma, losing their jobs meant that they lost their existing social networks with the non-Roma, while their own former networks essentially had vanished earlier.

Besides changes in the labour market, the marginalization of the Roma was expedited by the institutional changes of three other areas: local government, education and the housing system. The direction of institutional changes was greatly influenced by the cognitive frame of the ruling elite – or less scientifically, the extreme narrow-mindedness and superficial understanding of new ideas such as democracy, political freedom and free market. The fragmented state of social networks also had a role in the course of social changes: relationships between the winners and losers of the regime change became relatively rare. Regarding Mann's power sources, ideological power had a significant role in the local government and education systems while economic power was important in case of the housing system.

During the regime change, transformation of the former council system into real local self-governments was a very important step. Because of ideological reasons, a very fragmented local government system was created (with 3600 municipalities) having a very wide range of competences. Due to economic difficulties, central financing of the municipalities was not satisfactory, so this new system aggregated the formerly existing regional inequalities, which in turn even further increased due to the economic transformation. Regional segregation strengthened and became extreme in some cases.

Changes in education led to similar outcomes. The elite transformed the educational system according to its own interests. The right to free choice of schools – claiming freedom and diversity – became free selection between students on the schools' side, leading to early segregation and the fact that middle-class children became increasingly separated from the children of the poor. Financing of the schools greatly depended on the financial resources of the local municipalities. Along with the municipal reform mentioned above this increased school segregation and resulted in segregated education for a significant segment of the Roma. Because of the poorer financial circumstances of the schools with many disadvantaged children, teachers also became adversely selected, further increasing disadvantages.

I discussed the transformation of the housing system in Molnár (2015b) in detail. After the regime change there was pressure, mainly from upper middle-class tenants living in better apartments, to buy their dwellings at a low price. Local municipalities considered privatisation a good way to get rid of the maintenance burdens. It was strongly advised also by experts of international organisations, for example the World Bank. As a result, the share of public rental housing shrank below 3%. We can observe the mixed effect of economic and ideological power resources. The shortage of rental housing limited the possibility of regional mobility – moving from the countryside to cities for a job – to a great degree. Private rental up to now is very expensive and almost unavailable to the Roma because of the prejudices.

Before the regime change it had been typical to receive house-building loans at no or very low interest rate. After the regime change, following the increased inflation, the interest rate reached even 30%. According to the law, for those who could repay their mortgage in one amount, half of the remaining loan was waived. This means that while in the case of the better-off families a huge financial gain was obtained by early repayment, the financial burden on the poorer families increased dramatically. Such a situation, exacerbated by losing the job, frequently led to losing their homes. These processes hit the Roma especially hard.

In summary, we can say that all important structural changes after the regime change proved to be detrimental to the Roma. They found themselves at the intersection of several marginalizing processes – further worsened by prejudices: unemployment, lack of education, loss of housing and mobility options, regional and educational segregation. In all this, the effect of combining ideological, economic and political power resources can be discovered. Lacking appropriate social networks and collective self-esteem, i.e., their own internal organizing power, most of the Roma could not withstand these processes.

We can also observe that while enforcing ideological power, several social changes led to unintended consequences. Even politically liberal decision makers (who did not share prejudices against the Roma or the poor, being theoretically even sympathetic with them) brought a number of political decisions that produced grave consequences for the Roma, with the support of self-identified left-wing or liberal intellectuals.

The decisions leading to these long-term consequences were based on the narrow interpretation of liberty, in contrast to the freedom concept by Sen. “The distinction between the *process aspect* and the *opportunity aspect* of freedom involves quite a substantial contrast. [...] It is necessary to avoid confining attention only to appropriate procedure (as so-called libertarians sometimes do, without worrying at all about whether some disadvantaged people suffer from systematic deprivation of substantive opportunities) [...]” (Sen, 1999, p. 17, emphasis in the original). Although most of the elite of the regime change cannot be considered as libertarian, the process aspect almost fully outweighed the opportunity aspect of freedom while creating new institutions during the transition.

Sen distinguishes five “types of instrumental freedoms: (1) political freedoms, (2) economic



facilities, (3) social opportunities, (4) transparency guarantees and (5) protective security.” (ibid., p. 39) Economic facilities and social opportunities as types of freedom are still missing in the cognitive frame of the majority of Hungarian society, and more closely, the politicians or other decision makers.

## 2.2 The process of the reproduction of marginalization

As a result of the already described changes and processes, a significant segment of the Hungarian Roma is undereducated, dropped out of the formal labour market and lives in permanent poverty. They live in the villages or at the outskirts of cities in the least developed regions; their children go to segregated schools. The exclusion of uneducated people from the primary labour market, their poverty and the poor education their children receive is not limited to the Roma only; however, in their case, prejudices make their situation even worse.

I have reviewed the mechanisms of the interfering and cumulative effects of the political, ideological and economic power resources leading to the current situation above. Now I will examine the interactions of Beckert’s social forces in this specific case. These “can be conceived, within Sen’s framework, as a sort of collective *endowment* on the one hand. [...] On the other hand, social structures can also work as *conversion factors*, or factors that somehow affect the rate (efficiency) with which an individual is able to convert resources into desirable outcomes.” (Chiappero-Martinetti and Jacobi, 2014, p. 4)

For the reproduction of the marginalized situation of the undereducated Roma, the following contextual factors are the most relevant: labour market and employment policies, the structural characteristics of businesses by location and size, state-coordinated regional development policies, regulation of launching a business and market access, social policies, school system, self-government system, housing market and rental housing policies.

Social innovation for decreasing marginalization is greatly being complicated by the high number of institutions and their interference already mentioned earlier here and in the case study. This raises the question *if it would be necessary to present the interferences of the different, market-oriented and non-market-oriented institutions in the extended model explicitly* when trying to extend Beckert’s original social grid model – intended for the markets – to non-market areas. While analysing this specific case of marginalization, the answer seems to be yes.

Here it should also be examined if e.g. labour market and employment policies should be handled as separate institutions at all, since the employment policy of the state is part of the rules governing the operations of the labour market. This is an argument against separation. However, if we consider Mann’s power resources, then it is clear that the actions of the buyers and sellers operating in the market are determined by the economic power in the first place, while the state regulating or directly influencing the market is determined by political

or ideological power. If the employment policy of the state uses non-market approaches, too, then the separation is absolutely valid.

The Hungarian policy intervenes with powerful non-market tools into the market mechanisms. In the case study, I discussed the operation of the Hungarian public works system in detail (section 1.3.3). Since the completion of the case study, the number of people employed by the public works programme has further increased, the average number of participants being 230.000.<sup>160</sup> A secondary labour market was created that has very little connection with the primary labour market, with a whole different set of 'rules of the game'. It is possible that it does not make sense to distinguish between market and non-market institutions with the same functions in mature market economies, but there are very convincing arguments for doing so in case of the transition economies. Without this consideration, finding the best points of intervention and studying the impacts of social innovation may become problematic.

### *2.2.1 Institutions → social networks*

Most people with a low education level were excluded from the labour market; consequently, their related social ties have disappeared, especially the relations to more educated people. Regional segregation further reduced the number of social ties between the Roma and the non-Roma.

The public works system and the scarcity of available options turned the long-term unemployed within the same settlement into competitors. This was detrimental to the relationships between the Roma, too, increasing isolation and lack of trust in one another.

Since public works employees are usually employed within their own circles, this construct does not at all make up for the lost work ties. The negative impact is worsened by the prohibitions and sanctions of taking up a job in the informal sector. The public works system, its foundation, the municipality system and the social welfare system created a new, hierarchical network instead of the lost ties where the fate of the long-term unemployed depends on the mayor and the municipal leadership. This is a feudal-style system of relations between one or a few patrons and a number of clients (see Eisenstadt and Roniger, 1981).

The regulations of starting a business and accessing the market (see section 2.4 of the case study for more details) have a fundamental effect on the market networks. In Hungary, the proportion of small and micro-enterprises is very low in general, especially in disadvantaged regions.

School segregation and the low quality of schools in disadvantaged regions eliminate the possibility of forming ties between various social groups already in childhood.

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<sup>160</sup> <http://kozfooglalkoztatas.kormany.hu/havi-tajekoztatas-a-kozfooglalkoztatasrol>

### 2.2.2 Institutions → cognitive frames

The permanently high unemployment rate of the Roma and their exclusion from the labour market created or increased prejudices against the Roma in a significant segment of the majority of the society, i.e., that the Roma do not want to work. As I mentioned above, low demand from undereducated workers created a competition in this group. The severity of anti-Roma prejudices created a competitive advantage for the non-Roma.

Being excluded from the labour market and from quality education and the virtual impossibility of starting a micro business lead to learned helplessness, even self-hatred in some cases (see sections 2.1.3 and 4 of the case study). In addition, the current public works and social welfare systems reduce the willingness to get employed on the primary labour market.

With the already mentioned characteristics of the education system, students do not gain a respect for knowledge and recognize the significance of learning. Disadvantaged students, especially the Roma, have hostile feelings about schools. The curriculum contains almost no relevant knowledge for solving everyday problems or knowledge even vaguely related to those. There are no elements that could enhance positive self-identification for the Roma, and teachers are not trained to use the techniques of integrated education. Consequently, hostility is the strongest in places where segregation is not yet complete. Specific cases show that under these circumstances, Roma parents start to prefer segregated education.

As a result, disadvantaged children in disadvantaged regions finish school early with a low level of competences – especially Roma children. This means that the institutional system fundamentally determines the actual knowledge, not only the cognitive frame about education and knowledge. I have to add that the lack of knowledge required to participate in the social division of labour cannot be viewed as a *personal* trait or endowment under these circumstances, even if there are some exceptions in case of exceptionally gifted children or skilled teachers. I *find the concept of cognitive frames too narrow* for describing the systematically created lack of knowledge of some social groups as a negative social force.

### 2.2.3 Social networks → institutions

It is known from the theory of weak ties (Granovetter, 1973) that these factors have a crucial role in finding and keeping a job. The dissolution of former workplace networks has a reciprocal, strengthening effect on exclusion from the labour market. Segregated education has a similar long-term effect: the relationships of former schoolmates could be an important source of weak ties.

The formation of hierarchical patron-client networks has a negative reciprocal effect on the institutions and contributed to the fact that the public works system has become a new, different and separate institution from the primary labour market. The patron has an interest in

not letting the best workers, those whose services are the most useful, out of the system, hindering their employment in the primary labour market.

This phenomenon reminds us that the notion on the horizontal nature of networks (CrESSI) should be reconsidered: ‘Networks typically call for a horizontal perspective, giving less weight to hierarchies [...]’ (Chiappero-Martinetti and Jacobi, 2014, p. 3).

Besides the lack of capital, the lack of appropriate relations is also a barrier to launching a micro-business for the long-term unemployed. It is almost impossible to overcome the administrative hurdles without external help and appropriate connections.

Inter-community bridges as social ties play an especially significant role. *If there are no bridges to non-marginalized communities in a marginalized community, it is impossible to improve on the marginalized status.* ‘Inter-community bridges, such as the highly dynamic ‘creative nodes’ [...], determine complex systems’ adaptation potential (called evolvability in biological systems). [...] Inter-community bridges emerge as crucial determinants helping crisis survival.” (Csermely *et al.*, 2014). I will discuss this later, in connection with social innovation.

#### 2.2.4 Social networks → cognitive frames

The lack of appropriate networks has a negative effect on the parents’ attitudes towards their children’s education, considering their studies in a secondary school after finishing primary school, even supporting the child’s learning at home; all these produce a reciprocal negative effect on the education system.

The lack of social networks leads to a feeling of redundancy, undermines self-esteem and collective self-respect to a great degree and thus contributes to the formation of learned helplessness. The patron-client relation strengthens the demand for paternalism, further increasing dependency in relationships.

The lack of inter-community social ties also has a deep impact on the cognitive frame of the majority of the society. In the case study, I documented the representation of the Roma in public opinion and in the press in detail (section 1.3.2). The lack of knowledge due to the lack of connections increases prejudices and unjustified generalisations.

#### 2.2.5 Cognitive frames → institutions

In the case study I have shown the defective presumptions regarding the causes of unemployment that served as the foundation of the public works system (section 1.3.3). These presumptions resulted from superficial neoliberal ideas, lack of knowledge and prejudices against the poor and the Roma. *Workfare* is part of the cognitive frame of the majority, i.e., ‘at least they should work for the welfare benefit’. This mixture of ideas led to an institutional

system stabilising marginalization, while the governments views *the public works system as a social innovation of special significance*.

Through employment discrimination, the labour market is also impacted by the prejudices against the Roma. A similar impact is that due to free choice of schools, non-Roma parents do not send their children to schools with many Roma students. If segregation between schools is not an option, often segregated Roma classes are started.

There are often explicit anti-Roma sentiments, not simple prejudices. Radical right-wing organisations have emerged that often hold intimidating demonstrations at places densely populated by the Roma – with indifference towards the state institutions' role. A number of cases prove that the Roma are prone to police abuse more often and with less ground than the non-Roma. All these illustrate that security-related power resources also play an important role in the marginalization of the Roma.

Cognitive frames of a different nature influence the changes of market institutions that promote the reproduction of marginalization. There is a strong aversion to businesses due to the legacy of state socialism and bureaucratic regulations. This is not mere risk aversion but prejudices are partly deriving from the socialist era, partly from the privatisation period after the regime change assume that dishonesty is part of entrepreneurial activities. Distrust is also present in the regulations of launching a business. As a result, the proportion of micro-, small and (partly) midsize businesses is very low, and launching a new business is very difficult. The structure of the labour market is significantly affected by this and this is one of the reasons for the low employment rate of the undereducated.

#### *2.2.6 Cognitive frames → social networks*

Prejudices against the Roma hinder the formation of inter-community ties directly (friendships, neighbours, casual communications), not only through institutional processes.

Prejudices and racism play a big role in the birth and growth of far-right networks. These effects are valid to personal and web-based networks, as well.

The lack of individual and collective self-esteem of the Roma negatively influences their internal networks, too, while the demand for paternalism reinforces the patron-client relations, as discussed earlier.

### **2.3 Some important conclusions of the analysis of the specific case of marginalization from the extended social grid model approach**

1. The formation and reproduction of marginalized status can be described in different ways – although there are many similarities. This separation is important because the current situation often hides the original causes leading to the present. This exploration is important because changing negative cognitive frames about marginalized groups can be one of the conditions of

successful social innovation aiming to help the marginalized.

2. Both Mann's and Beckert's approaches can well be applied to both processes. Mann's approach is helpful for analysing the formation of marginalization during large social changes. For this Hungarian case, *ideological* power describes the impacts a lot more precisely than the other option, *cultural* power. Instead of *military* power, however, *security-related* power is a more adequate definition.

In case of marginalized groups, *collective self-esteem* is a crucially important concept amongst ideological power resources. The lack of them significantly contributed to the marginalization process; consequently, one of the essential purposes of social innovation should be to restore them. As we can see from the case of the Hungarian Roma, restoring *personal* self-esteem is not enough, because they lost their collective Roma self-esteem in addition to the personal dimension.

3. Two important factors functioning as power resources do not fit into Mann's classification, or do so only problematically. One of them are the *social ties*. Several examples above illustrated that these are fundamental power sources; however, they cannot be classified under any component of the NAIEMP model.

4. The other factor is *knowledge*. In a side note on transition management, Lodemann (2014) also raises the question of this aspect of power source. Quoting from Avelino and Rotman's study, also referred to by Lodemann: 'a narrow interpretation of knowledge refers to the mobilization of mental resources (information, concepts, ideas and beliefs) to reach a specific goal, which is (by definition) an exercise of power. However [...] knowledge not only has a 'cognitive but also a performative significance. [...] This means that constructing and communicating knowledge, one is exercising power, not only in terms of 'mobilizing mental resources', but also in terms of influencing how other actors mobilize all the other type of resources (human, artefactual, natural and monetary). In order to know which resources to mobilize to reach a specific goal, and in order to know how to mobilize these resources, it is necessary to have knowledge about these resources.' (2009, p. 558)

*In case of the marginalized Roma, this lack of knowledge is a fundamental factor and a central issue of social innovation targeting the improvement of their status.* Ideological power has a crucial role in the formation of marginalization; but from the marginalized group's aspect, knowledge as a missing resource is not an ideological power resource and cannot be interpreted as artefactual power either. Knowledge can be interpreted as the personal endowment of the capability approach, as Lodemann (2014) suggests, but this does not resolve the problem since it is not a personal power resource issue. In my opinion, knowledge as described above should be a sovereign component in the extended social grid model.

5. Beckert's construct for analysing the mutual connections of the three social forces proved to be a potent tool for extending the social grid model to non-market areas. This extension,

however, necessitates the explicit differentiation of market and non-market institutions within the institution system and an analysis of their correlations. Applying the social grid model to the situation of marginalized groups, special attention must be paid to networks containing both marginalized and non-marginalized people and are not part of the power hierarchy (for example, not based on a patron-client relationship). Inter-community bridges play a significant role in these networks.

6. The definition of marginalization by CRESSI should be revisited or rather supplemented with regard to two aspects: '**Marginalization** is a *social process* through which *personal traits* are transformed into *potential factors of disadvantage*' (Chiappero-Martinetti and Jacobi, 2014, p. 9). As I have shown, the lack of collective self-esteem was an important factor in the marginalization process of the Roma. The prejudices against the Roma and the warped representation in the mass media do not affect the Roma as individuals only; it would be an oversimplification to view the prejudices as contextual factors only. The Roma come across these effects from early childhood on and internalize them in some way. Although not all Roma react the same way, it is a simplification to say that this is *personal* traits only instead of *collective* traits in reality. In my opinion, it would be better to refer to this as *personal and collective traits*.

This improved definition is correct if we are talking about the evolution of marginalization – being born into a marginalized status is quite different. Children born into poverty in disadvantaged areas to permanently unemployed parents and going to low quality schools are being born and growing up in a marginalized status. With exceptional personal traits and/or intensive help, they may be able to break out of marginalization; but being marginalized has nothing to do with their personal traits per se. In this case, 'factors of disadvantages' cannot be viewed as 'potential', but as a finished fact. I have no specific suggestion for the correction of the definition, but this issue should be considered.

### 3. The Kiútprogram in relation to the extended social grid model

#### 3.1 Points of intervention

The analysis of the reproduction of marginalization shows that the key points where the process can be interrupted are education and employment. Kiútprogram targeted employment: helping permanently unemployed people living in deep poverty return to the primary labour market. Kiútprogram also had two indirect objectives from the beginning: empowering project participants and reducing negative stereotypes about poor and vulnerable groups, especially the Roma.

Choosing the specific tool of facilitating self-employment<sup>161</sup> was preceded by the analysis of

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<sup>161</sup> By self-employment, agricultural primary production is also included.

contextual factors discussed in the previous chapter. The factors behind the decision were the following:

- lack of available jobs for the undereducated<sup>162</sup> and employment discrimination against the Roma deterred the designers of Kiútprogram from choosing solutions of different nature;
- failure of state-managed regional development efforts to attract capital to disadvantaged regions;
- failure of state employment policies constituted a barrier but also implied an opportunity;
- low density of micro-businesses clearly offered an opportunity in Hungary, especially in disadvantaged regions;
- self-employment is especially suitable for empowerment and promoting agency, and
- internationally known model of microcredit programmes.

The complex nature of the reproduction of marginalization requires complex interventions. Obviously, non-market tools are also required to help people return to the labour market. This fact and the particularities of post-socialism necessitated the modifications of several important components of the original microcredit model (case study: 22). In our case, an existing social innovation was adapted. From the innovation models – linear, networked and interactive learning models – discussed by Havas (2016), *Kiútprogram clearly shows the characteristics of the interactive learning model.*

### 3.2 A short overview of the Kiútprogram

Interrupting the analysis here, I shortly summarise the most important characteristics of the programme for readers who are not familiar with the case study. Kiútprogram provides small, unsecured loans for starting a business (similarly to the Grameen model) to people living in deep poverty, mostly Roma. Unlike the Grameen model, however, this programme also provides additional financial and social services such as counselling, financial, professional and communication trainings, help in developing business plans and registering the business, bookkeeping free of charge, etc. This support is provided by the well-trained field workers of the programme who are continuously present at the location, and as well by consultants.

The programme is still running and consists of two phases that differ in a number of aspects. In phase one, project participants formed groups of 4 to 6 members and the Grameen-model's technique of social collateral (sequential lending, contingent renewal) was applied<sup>163</sup>. This phase was financed by a Roma pilot project of the EU.

After the pilot project ended, the Hungarian government decided not to support the programme; since then, it has been operating from private resources exclusively. This means that the available financial resources have decreased – for this reason, the scope of the

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<sup>162</sup> There are only two programmes in Hungary – one state and one non-governmental innovative initiative – helping the Roma find already existing jobs; however, these programmes target the college-educated Roma.

<sup>163</sup> See Molnár (2015c) for more details.



programme had to be narrowed. Currently only one agricultural programme being cucumber production is running, which has the lowest per capita costs. While in the first phase, everyone could select the type of business to launch, the second phase offers the opportunity to join a given production system. In the second phase, the application of the tools of social collateral was discontinued due to the experiences gained in phase one.

### 3.3 Potential and actual project participants

Above I described the *initial endowment* of the project participants in detail: low level of finished education, dropped out of the primary labour market a long time ago, have no savings, live in permanent poverty among poor conditions in underdeveloped regions of the country<sup>164</sup>. Regarding endowment, in the second phase it became important to have some land suitable for cultivation near the place of residence, preferably a garden suitable for growing cucumbers.

There are two of the *social conversion factors* described in the previous chapter that can differ greatly from village to village. The first is the attitude of the local municipal leadership towards marginalized groups, especially the Roma. Some municipalities try to do their best to help the status of the poorest in the village, considering the available options and their own skills. (This is relative up to a certain point because there are places where virtually everyone is poor.) In contrast, there are villages where the local leadership aims at maximising the dependency of the poor and tries to win the support of the non-Roma residents by being harsh with the Roma. (Of course, there are many situations in between.) This is a very important factor from the aspect of social innovation for overcoming marginalization (SIM)<sup>165</sup>.

Another important variable is the degree of segregation, looking at whether the Roma live in completely separated, ghetto-like settlements, or at the outskirts of the village but connecting to it. This plays a crucial role in having connections with the non-Roma or other social groups, e.g., the non-poor (not counting hierarchical patron-client connections).

*Conceptually it is not clear how inter-community connections should be classified by the capability approach: personal trait, initial endowment, or social conversion factor.* In my opinion, there are elements from all three factors. Regardless of classification, the lack of inter-community connections by itself could cause failure in the first phase of the programme<sup>166</sup>.

Regarding *personal traits*, although the target group of the Kiútprogram was the Roma, ethnic origin was not a condition of getting accepted in the programme, only poverty. Ethnic-based

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<sup>164</sup> The case study mentioned a failed experiment of the Kiútprogram in a district of Budapest densely populated by Roma. The capital needs of a start-up in Budapest exceeded the resources of the project.

<sup>165</sup> I use the abbreviation created by Klaus Kubeczko in an internal working paper for the CrESSI project.

<sup>166</sup> This is not a general conclusion, of course. It depends on the regional distribution of the given ethnic minority. For example, in the district Shuto Orizari of Skopje, the Macedonian capital, where about  $\frac{3}{4}$  of the population of 17,000 are Roma, the local micro lending organisation, Horizonti has no such problems.

filtering would have had a negative effect on the cognitive frame of the non-Roma from several aspects. First, it would have increased hostility against the Roma because “they are supported again while the Hungarians are not”; second, it would have caused distrust in the programme itself, adding to the suspicion against something new and unknown. All these would have made the strengthening of inter-community<sup>167</sup> connections impossible, i.e., there was a *trade-off* between exact targeting and building inter-community connections, which is a key component of the success of the programme.

Analysing the inhibiting factors of scaling up the impact of social entrepreneurial organizations (SEO), Scheuerle and Schmitz (2015) distinguish three (pre)conditions of the success on personal level: *willingness*, *ability* and *admission*. This classification can also be extended to the (potential) entrepreneurs sponsored by the Kiútprogram. (I need to emphasise that although the Kiútprogram is a SEO, the businesses launched by the programme participants are market-based.) *Admission* is comparable to *contextual factors* while *willingness* and *ability* are two components of the participants’ *personal traits*.

This classification can also be compared to the transition management approach by Avelino and Rotmans: „Having defined power as the ability to mobilize resources, we can deduce four conditions for the *exercise* of power: (1) *access* to resources; (2) *strategies* to mobilize them; (3) *skills* to apply those methods; and (4) the *willingness* to do so.” (2009, p. 556) *Empowerment* is about gaining power by this definition. Accordingly, the concept of *ability*, as defined by Scheuerle and Schmitz, can be divided further; I will analyse these three components of personal traits: *willingness*, *strategies* and *skills*.

The presence or possibility of the potential participants’ *willingness* is a key component of the Kiútprogram. A prerequisite of successful participation is *determination* of the participants to change their own and their families’ circumstances. Another important prerequisite is the *willingness to take risks*. The necessary level of risk-taking willingness is influenced by a number of external factors. Higher risk tolerance is needed to launch an enterprise than to join the cucumber project. Relative risk is increased by the growth of the public works programme: launching a business carries a higher relative risk if there is a high probability to get employment in the public works programme. This risk can also be increased or decreased by the behaviour of the local leaders and their approach to exercising political power.

Determination and risk-taking willingness are not enough though; *learned helplessness must also be overcome*. There are many individuals in the target group without learned helplessness due to their personal traits, natural optimism or dynamic personalities. But for the majority, this is not the case. Social programmes targeting the marginalized often find that these people do not want to take advantage of the opportunities offered to them, and even if they get involved, they often give up after coming across the first more serious problem. In case of

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<sup>167</sup> In this case, inter-community connections refer to inter-ethnic connections, but in a general sense, I meant connections between marginalized and non- (or less) marginalized groups.

these incidents, the cognitive frame of the potential participants must be modified, learned helplessness must be neutralised.

As I documented in the case study and Molnár (2015c) in detail, providing unsecured loans is a suitable tool for these objectives. The loan has a dual purpose: it provides the missing financial capital as initial endowment and helps overcoming learned helplessness.

The impact mechanism is based on building *trust*: unsecured loans mean that the issuer of the loan trusts the character of the client and also believes that he or she would be capable of turning the business into a success. In my opinion, it is a general rule in case of SIMs that *building trust between the participants and operators of social innovation is a prerequisite of maintaining participants' willingness, building and reinforcing their self-esteem and eventually ensuring the success of the programme*. Trust can be built in several ways depending on the specific programme; however, promises must be kept, rules set and followed in order to sustain this trust.

Permanent scarcity – of financial resources, time, etc. – helps concentrate on the immediate tasks in view, but excludes everything else and narrows the bandwidth of thinking. Mullainathan and Shafir call this the ‘bandwidth tax’: “Scarcity doesn’t just lead us to overborrow or to fail to invest. It leaves us handicapped in other aspects of our lives. It makes us dumber. It makes us more impulsive. We must get by with less mind available, with less fluid intelligence and with diminished executive control” (2013, p. 66). This phenomenon, although similar, is not the same as learned helplessness. Its most important consequence is the limitation of planning and long-term, strategic thinking. Mullainathan and Shafir’s description is very expressive: „Getting out of a scarcity trap first requires formulating a plan, something the scarcity mindset does not easily accommodate. Planning requires stepping back, yet juggling keeps us locked into the current situation. Focusing on the ball that is about to drop makes it terribly difficult to see the big picture.” (ibid., p. 130)

The above effects are not deterministic. Their extent depends on individual personal traits. An extreme case of narrow bandwidth is when the participant uses the resource to launch a business for covering daily living expenses. Facilitating strategic thinking is an important objective of the programme; creating a business plan with the participant is a crucial tool of this, as described in the case study. Filtering is equally important though: *candidates who are not capable of strategic thinking at all will not be successful as entrepreneurs*.

Another prerequisite – more important in the first phase of the Kiútprogram, less so in the second – is the presence of *entrepreneurial skills*; being capable of *independent decision-making and establishing new relations*. These skills cannot be taught within the framework of the programme, candidates must be selected based on their presence. However, there are additional crucial skills that participants learn in the Kiútprogram, e.g., know-how of running official errands, financial and economic knowledge, in more general terms: *familiarity with the regulations of the institutional system*. The specific *trade skills* needed for the given

business type also belong here.

In the first phase of the programme, participants had some – often very limited – trade skills; in the cucumber-growing project, though, many participants had no previous knowledge at all. Because of the reasons described in the previous chapter, most participants have strong adversary feelings towards the education system and formal education. This is why training integrated into work was the only option.

An important difference between the two phases is that there was only one available activity in the second phase, cucumber growing, and the Kiútprogram provided sales – and later – supply channels, too. Another trade-off emerged: *the more the programme supports the integration of participants into networks, the less it contributes to agency in the short run.*

In conclusion we found that certain personal traits are prerequisites of the participants' success while other skills can be learned during the programme. Participants' personal traits are not a static set of abilities; these traits change during social innovation. In SIM, one of the objectives is exactly the modification of the participants' personal traits. *The social grid model should be complemented by the explicit addition of this objective.*

### 3.3.1 Commentary on the definition of social innovation

Another conclusion of the above is that there is a trade-off between the degree of the participants' marginalization and the necessary costs of the programme: the worse the participants' initial status, the bigger the costs required, meaning that if the given innovation targets the least marginalized – operating in villages where the representatives of the political power are cooperative, participants already possess the willingness and strategic thinking and have a variety of skills – then the programme would increase the marginalization of the rest of the members of the target group not included in the programme instead of reducing it.

The definition of social innovation given by the CrESSI project: “The development and delivery of new ideas (products, services, models, markets, processes) at different socio-structural levels that intentionally seek to improve human capabilities, social relations, and the processes, in which these solutions are carried out.” However, this definition does not consider the possibility that in case of SIM, the improvement of human capabilities of certain marginalized persons/groups may go hand in hand with the deterioration of the social relations of other, even more marginalized persons/groups.

Nicholls et al. (2015) draw attention to this possibility when mentioning the potential ‘dark side’ of social innovation. From the three negative scenarios mentioned there, the second scenario applies to this situation: “Deviant or unintended consequences that achieve negative social effects (e.g., by excluding some groups from the focus of social goods, services or change)” (ibid., p. 5.)

Based on the experiences gained in the Kiútprogram it can be added that an intervention of

this magnitude might even intensify the reproduction process of marginalization. Several studies found that profit oriented microlending to the poor is an example for this phenomenon (see Molnár, 2015c). Therefore, the normative (and not descriptive) SI definition should be complemented with a reference to the Pareto-efficiency regarding marginalized groups:

The development and delivery of new ideas (products, services, models, markets, processes) at different socio-structural levels that intentionally seek to improve human capabilities, social relations, and the processes, in which these solutions are carried out **in a Pareto optimal way**.

### 3.4 Making the program

#### 3.4.1 The field workers

The various tasks of the field workers can be summarised in one common notion: *they are the inter-community bridge mentioned earlier*. Through them, external knowledge reaches the participants, either directly during daily communication, group meetings or trainings, or indirectly by supplying the right experts or finding potential business partners.

*It is important that this bridging role has two directions.* In case of administrative errands in various offices, field workers are present not only to help with complicated administrative errands, but to dissolve prejudices and counterbalance discrimination. The situation is similar with potential business partners. Field workers pass on information about the lives, ambitions and efforts of the marginalized Roma to non-marginalized people that they were not aware of before.

As a result, new parties become business partners (bank employees, suppliers, buyers, integrators coordinating production) who would not have contracted poor Roma clients earlier. On the one hand, this is a local change in the operation of the institutional system; on the other, the participants of the programme get connected to existing networks. These new contracts and connections in the long run enable independence and success after leaving the programme.

#### 3.4.2 The initiators, the leadership and the inner sponsors of the programme

The Kiútprogram is special in the sense that the initiators and the biggest private sponsors are the same. Since its foundation, they have been leaders and active members of the top decision-making body. The flexibility of planning and execution is an important consequence of this situation.

The main motivation of the founders and private sponsors of the program is the very strong aversion against social injustice (a detailed, interview-based description of this issue can be found in sections 2.2.1 and 2.2.3 of the case study). In some cases this motivation resulted from experiences at elementary school, from the psychological irritation felt because being in

a privileged position in comparison to the classmates from poor families. In other cases the socially inhomogeneous workplace, the good job relations with Roma colleagues played an important role. These facts emphasise again the importance of the intercommunity relations.

In every case the motivation contains also a very conscious element: the Roma are the most seriously discriminated against in the Hungarian society, consequently supporting their social mobility is the most efficient way promoting equal opportunities. The professional composition of the decision-making body is rather mixed, its members however show a common personal trait, namely permanent striving for innovative solutions in their career.

The programme started out as an adaptation of international initiatives. The starting phase of the planning phase was the study of international literature and the experiences of microlending. This was followed by the:

- analysis of relevant Hungarian institutional systems,
- anthropologic and sociological field research, and
- analysis of the sole earlier (unsuccessful) Hungarian initiative.

Following the deductive preparatory phase, the innovation – differing from the original model in many ways – was put in practice. Execution can basically be described as a *trial and error* process: experiences were analysed continuously and the applied methodology was modified accordingly (cf. Havas, 2016, p. 16). In addition to the lessons learned, the programme had to be continuously modified due to the changes of the external circumstances and the regulatory environment.

To the initiators and leaders, the primary objective of the programme is to be socially beneficial. This means that the Kiútprogram – although it is a non-profit corporation in name – is not really a social *enterprise* where the social and financial components are in balance. The possibility of breaking even is out of question, even in the long run. The initiators and leaders of the programme understand that their *social goal cannot be achieved within the framework of a sustainable social enterprise without continuous external financing*. They set a more modest but feasible objective: the financial benefits on social level – taxes paid by the launched businesses and welfare benefits not paid to the participants of the programme – should exceed the costs of the programme. This objective is being met.

The most important dilemma for the leadership of the programme is the *trade-off between the degree of marginalization of the participants and the costs*. If the programme accepts only less marginalized participants ('people at the edge of poverty')<sup>168</sup> then losses can be

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<sup>168</sup> According to the mainstream view of the microlending industry, loans should only be issued to people at the edge of poverty whom profitable or at least sustainable social enterprises can be based on. For example, see the interview with Tony Sheldon (Executive Director of the Program on Social Enterprise, Yale School of Management): <https://www.youtube.com/watch?v=xhkuH30lxc0>. A similar stance is taken by the training

eliminated in the long run – but the social goal is not met. If the programme works with extremely marginalized participants only, then not only the financial costs but the probability of failure will grow to a great degree, deteriorating the reputation of the programme and eliminating its possibility for further improvement. *This dilemma has no optimal solution in theory either; it requires continuous analysis and discussions.*

This ongoing analysis can only be successful with a *widespread professional knowledge on behalf of the leadership.*

### 3.5 Outer financing

The biggest barrier of the scaling up of the Kiútprogram is the scarcity of available resources. Regarding creating economic space for social innovation, the most valuable lessons were learnt here. I will review three financial resources/sponsors, actual or potential: the EU, the Hungarian state and private sponsors.

#### 3.5.1 Resources from the EU

Between 2010 and 2012, the main financing resource of the Kiútprogram was a Roma pilot project run directly by the EU administration in Brussels (see section 2.1.4 of the case study). The administration requirements of the programme were more logical and smaller, and the internal flexibility was greater than EU programmes run through the Hungarian government. However, it proved to be inflexible from one aspect – it was obvious to all stakeholders that the 2-year duration was not simply unrealistically short but also harmful considering the execution: it forces faster than optimal initial growth and a shorter than necessary loan repayment period. Still, it was not possible to extend the repayment period with the same amount of funds. *The flexibility needed for social innovation and the inflexibility of the support system got into conflict. A more flexible support system would ensure greater efficiency even with an unchanged amount.*

According to the EU assessment, the performance of the Kiútprogram was successful in the first two years; however, there is no EU construction that could ensure the continuation of a successful pilot. There is a microfinance programme of the EU (Progress Microfinance, a formerly independent programme now integrated into the EaSI framework)<sup>169</sup> but it is not suitable for non-traditional social microcredit programmes similar to the Kiútprogram that provide very small loans with a high rate of failure. As an example, the upper limit of the loans available in Progress Microfinance is 60 times higher than the average loan issued by the Kiútprogram. A structure with the upper limit that high is built on very different

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programme of the EU-sponsored Positive Finance (formerly PlaNet Finance) University Meets Microfinance (<http://www.universitymeetsmicrofinance.eu/>).

<sup>169</sup> <http://ec.europa.eu/social/main.jsp?catId=836&langId=en>

foundations from social microcredit. *The dogma of sustainability as a policy requirement for microcredits is an obstacle to the implementation of inclusive, social microcredits.*<sup>170</sup>

The presumption of the EU institutions in charge is that the continuation of a successful pilot will be granted by the so-called operative programmes of the member countries, by using EU resources eventually. This makes sense in general, but it is questionable if this is the correct approach for the inclusion of permanently socially excluded groups. Is it realistic to assume that a political power structure and the related institutions partly responsible for the reproduction of the marginalization of the Roma would be supportive of a social innovation working on changing that situation? According to findings in general, the utilisation of European funds for the inclusion of the Roma is extremely ineffective and inefficient, not only in Hungary but other post-socialist countries, too. *It should be considered if European institutions could create an economic space for social innovation beyond the current – very narrow – scope of pilot programmes directly, not through the affected national administrations.*

### 3.5.2 The Hungarian government

According to calculations, Kiútprogram is a more efficient tool than the public works programme. Still, the Hungarian government intentionally denies further support for scaling it up altogether, based on a declared political decision, and will not announce any tenders for social microlending organisations, either. The reasons are twofold. *The first reason is solely political*, namely that the former government supported the programme. Lodemann (2015) describes a similar situation in the case of ‘New Water Paradigm’ in Slovakia. In the case of Kiútprogram, an issue contributing to the problem was that the support of the former government was not normative, but based on an ad hoc decision. As I have shown in the case study in detail, this decision by the former government was brought about instead of the modification of a discriminative regulation (Molnár, 2015a, pp. 55–56).

Based on this incident, the following *hypothesis can be made: the direct or indirect state sponsorship of SIMs must be based on publicly taken decisions.* Ad hoc decisions may cause harm not only in case of changes in the administration but can also negatively influence the cognitive frame of the public about the marginalized group.

*The other reason is ideological* – the Hungarian government committed itself to the public works programme. Closely related to this, the Hungarian government aims at the ‘social catching up’ of the Roma instead of social inclusion. The Hungarian term for ‘catching-up’ clearly suggests that those who need to catch up are at a lower level; their integration can take place only if they have reached the level of others. The biggest theoretical difference – among many others – between the Kiútprogram and public works is that while the latter is

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<sup>170</sup> See also Molnár (2015c).



fundamentally paternalist, the main objective of the Kiútprogram is to *strengthen the independency and agency of the participants*.

The state could support the social innovation of Kiútprogram not only financially but also by modifying the institutional background and regulations. This could be achieved with a variety of tools. Here I mention only some examples that were described partly in the previous chapter, partly in the case study in their own context:

- creating specific legal regulations for microlending and non-business-type lending, similarly to the practice of other countries;
- establishing financial guarantee funds;
- reducing the contribution-paying and administrative burdens of start-ups;
- supporting the entry of micro- and small businesses into the market, especially in disadvantaged regions; and
- changing the system of adult education, implementing training through work.

Without exception, these measures are not connected to the social innovation of the Kiútprogram or the integration of the Roma directly; still, any improvements would have been very helpful to both. However, the public works programme has excluded all other active labour market tools in the recent years.

### *3.5.3 Further private sponsors*

For Kiútprogram, fundraising is very difficult because it is relatively complex and difficult to classify. The culture of donation is very underdeveloped in Hungary in general. Donating to people or families who got into trouble “through no fault of their own” is preferred. These kind of donors are suspicious because of the business-related approach of the Kiútprogram. Conversely, donors of the business sphere have trouble with the “unprofitability” of the programme and expect sustainability, just like the EU.

The leadership of the Kiútprogram also made some mistakes in the presentation of the programme to the public. An important conclusion is that *social innovation should not only form the cognitive frame about the target group but the social innovation itself*.

### *3.5.4 Financial institutions*

The Kiútprogram failed to establish long-term banking relations for its clients despite the fact that one of the sponsors of the programme is a banker with a large professional network. One reason was already mentioned, being the lack of the regulations of microlending. This makes the cooperation with the programme very difficult and creates additional burdens for the

banks. Working with local savings cooperatives was prevented by the repeated state intervention into the sector in the form of nationalisation and then reprivatisation<sup>171</sup>. Due to the permanent implementation of the highest taxation of the banking sector in Europe<sup>172</sup>, the CSR activities of the banks have decreased severely. Finally, a significant part of the financial institutions do not believe that supporting Roma programmes would improve their image in the eyes of their target groups.

As a result, the Kiútprogram provides support to its participants the only legal way available: as commercial credit. This has several disadvantages. The biggest obstacle of scaling up the programme is created by this institutional factor.

### 3.6 The local political power

The most prominent representation of the local political power is the local government, mainly the mayor, the local government representatives and the administrative apparatus. Additional administrative offices – not necessarily in the same settlement – also have political power: employment centres, tax agencies, authorities in charge of licensing and overseeing various types of businesses. I have already analysed the relationships with these offices from the participants' and field workers' aspect. Institutional approaches towards poor Roma clients can be basically classified as 1) deliberately discriminative, 2) prejudiced-distrustful (the most common), and 3) supportive.

Field workers reported that when dealing with the administration the clients faced discrimination in about half of the cases, which without the intervention of the field worker could have resulted in a failure of the procedure. Officials who showed discriminatory behaviour, which is illegal, were not withheld by the risk of being held responsible for it. In the majority of the cases the intervention of field workers could defy discrimination and also generated some sort of learning process on the administration's or service providers' side. This experience proves that *consistent state action against discrimination could greatly improve the employment situation of the Roma too*.

The programme had the biggest effect on the prejudiced-distrustful group in the long run. In spite of their expectations, Roma people living in deep poverty repaid the unsecured loans – and this fact changed their cognitive frame significantly and led to the improvement of our cooperation in several places and helped territorial extension during the second phase of the programme.

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<sup>171</sup> Discussing the details would far exceed the scope of this study. A summary in English can be read here: <http://budapestbeacon.com/public-policy/takarekbank-sale-completed-after-constitutional-court-green-lights-transfer-of-governments-shares/11082>

<sup>172</sup> See e.g. <http://www.doingbusinessinhungary.com/taxation#special-tax-of-financial-organizations-and-credit-institutions-contribution-of-credit> and <http://www.bloomberg.com/news/articles/2015-04-24/hungary-bank-tax-to-stay-europe-s-highest-after-cut-orban-says>

At locations where the local political power felt that their “feudal” influence based on public works and other methods was threatened by the Kiútprogram, no similar changes took place. Nevertheless, in a village where the cucumber project had relatively numerous participants, the participants had a role in getting a new mayor elected eventually, who promised cooperation during the campaign. This brought a “revolutionary” change in the life of the village where the Roma are in minority: on the one hand, this was the first time that they influenced local public life in effect; on the other, the candidate was not deterred by fearing that the support of the Roma would scare non-Roma voters away.

*There is an important trade-off here too: the second phase provided much less decision-making freedom for the participants than the first phase; however, it enabled collective actions and empowered collective agency as a trade-off for less individual agency. A necessary component of this is that participants are not competitors. The volume of their production does not influence the cucumber market in any sense.*

### **3.7 Further stakeholders**

Mainly the business partners and consumers of the micro-businesses belong here, but the direct environment can also be included. Because of the lack of trust, a part of the business partners would not have contracted with the Roma without the cooperation of the Kiútprogram. Positive experiences have a twofold effect: first, they *changed existing prejudices – i.e., changed the cognitive frames of people in the immediate surroundings –*; second, they *enabled entrepreneurs to join horizontal networks*. Because of the heterogeneity of start-ups, these remained isolated events and did not have a ripple effect.

In case of the cucumber project, the Kiútprogram reached the critical size when it was able to become the competitor of some of the local integrators (coordinators of primary producers, see Molnár, 2015a, p. 30), and could also get better shipping and buying rates from the shipping companies and the canning factories. Local integrators often abuse their monopoly power. Consequently, the Kiútprogram met a new challenge this year: individual cucumber producers outside the target group, even local governments running a cucumber-producing public works programme want to contract the Kiútprogram as an integrator, on pure business terms. It is an advantage that the acceptance of the programme by the local environment strengthens the social integration of the participants and increases the income of the programme. At the same time, the diversification of the field workers’ roles may endanger the integrity of the programme. This is an interesting phenomenon from a theoretical point of view because *the organic development of social innovation led the programme to a new field, unforeseen by everyone earlier*.

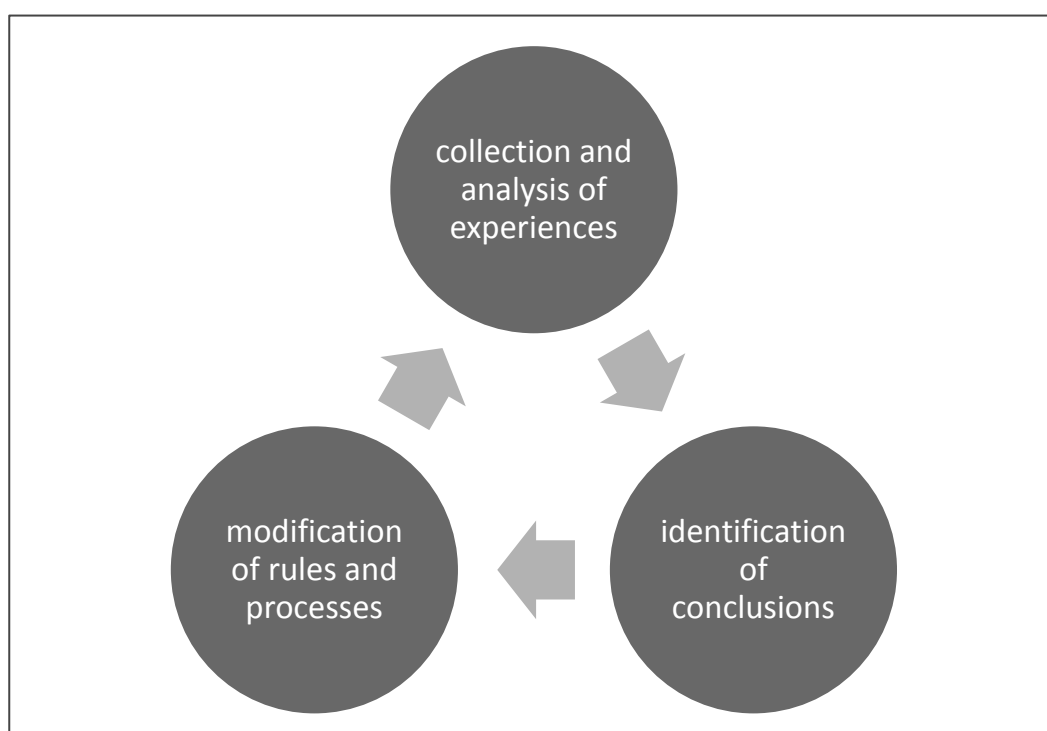
Wherever participants were successful, the programme had a clear positive effect on the cognitive frame of the non-Roma environment and the local relations of the participants. A one-off but very telling thing happened in a village with several grocery shops: one of the shop owners tries to get more customers by providing interest-free consumer loans until the

next harvest to participants who repaid their loans to Kiútprogram. This means *that the fact that the loan was repaid becomes a moral collateral for other lending transactions*.

Although they are not stakeholders directly, the interest of the media and other, socially oriented non-governmental organisations is crucial for the cognitive frame modifying effect of the Kiútprogram. The press coverage of the Kiútprogram is fundamentally positive – except for some media outlets airing direct government propaganda. The programme is regularly mentioned in public debates as an example that Roma people in deep poverty are capable of running businesses or producing agricultural products successfully if the necessary conditions are met.

### 3.8 Changes of the Kiútprogram over time – life cycle

Kiútprogram was preceded by a long, interdisciplinary process of planning and preparation based on experiences described in the literature and the analysis of the Hungarian environment. During implementation, the initial model was modified several times. One of the modifications was caused by the reduction of the financial resources, as mentioned earlier. However, the rest of them were results of a continuous learning process consisting of the following recurring steps:



**Figure 1: Interdisciplinary learning process in the Kiútprogram**

*The analysis of experiences* is twofold: analysing the impact on the participants and the changes of external conditions. Since the fundamental goal of the programme is to enable participants to improve their situation with dignity, the analysis of this impact is vital. The

collection of experiences is a multi-level process where the Kiútprogram uses five methods:

- analysing the business data of the participants' enterprises and repayment data;
- getting field workers' feedback on the participants' opinions and their own experiences;
- getting the professional leader's feedback on the participants' opinions and the field workers' performance;
- getting direct feedback from the participants (surveys, interviews);
- commissioning external consultants for analysis.

*The identification of conclusions* is not a theoretical question in some cases, but very often, decision-making comes down to assessing trade-offs. If there is a trade-off between two objectives, the weights to be attached to both outcomes should be considered. The theoretical problem and the process are similar to the weighing of capabilities described by Sen: 'However, interpersonal comparison of *overall* advantages also requires "aggregation" over heterogeneous components. **The capability perspective is inescapably pluralist** (emphasis mine). First, there are different functionings, some more important than others. Second, there is the issue of what weight to attach to substantive freedom (the capability set) vis-à-vis the actual achievement (the chosen functioning vector). Finally, [...] there is the underlying issue of how much weight should be placed on the capabilities, compared with any other relevant consideration.' (1999, pp. 76–77)

'It is of course crucial to ask, in any evaluative exercise of this kind, how the weights are to be selected. This judgemental exercise can be resolved only through reasoned evaluation. [...] This is a "social choice" exercise, and it requires public discussion and a democratic understanding and acceptance.' (ibid., p. 78-79)

An important component of Kiútprogram is to have 'reasoned evaluation' by the leadership and consensus-based decision making.

*The plurality of objectives is an important characteristic of SIMs. Creating economic space for social innovation has a non-economic condition, 'public discussion and a democratic understanding and acceptance.'*

Several significant changes have been made to the step of *modification of rules and processes*, I will highlight two of them here that have theoretical importance. The first was the erasure of social collateral techniques (any form of common liability, sequential lending, contingent renewal), an established technique in microlending. According to the experiences of the Kiútprogram, social collaterals contradict to free and sustainable agency and also eliminate the positive effect of trust between the committed clients and the programme. If we want to avoid psychological coercion, the selection of clients can only be the result of a carefully built process of several years' duration, which, however, has additional costs. (Further details can be found in Molnár, 2015c).

The other important change was that the programme started to *facilitate the connection with*

*market networks directly.* Consequently, the Kiútprogram took over a significant part of the integrators roles in the cucumber project, *reinforcing the entrepreneurial component of the programme.* The Kiútprogram buys seedlings and chemicals from wholesalers and provides credit for current assets in addition to investments. The Kiútprogram organises the collection of the product and shipping to the canning factories, too. The inspiration behind this change was that integrators enjoying local monopoly power due to cartel activities often sold chemicals to poor participants at usury prices. This change became possible because the leadership of Kiútprogram approached a freshly retired top agricultural manager committed to the Roma cause who then joined Kiútprogram, ensuring the professional background.

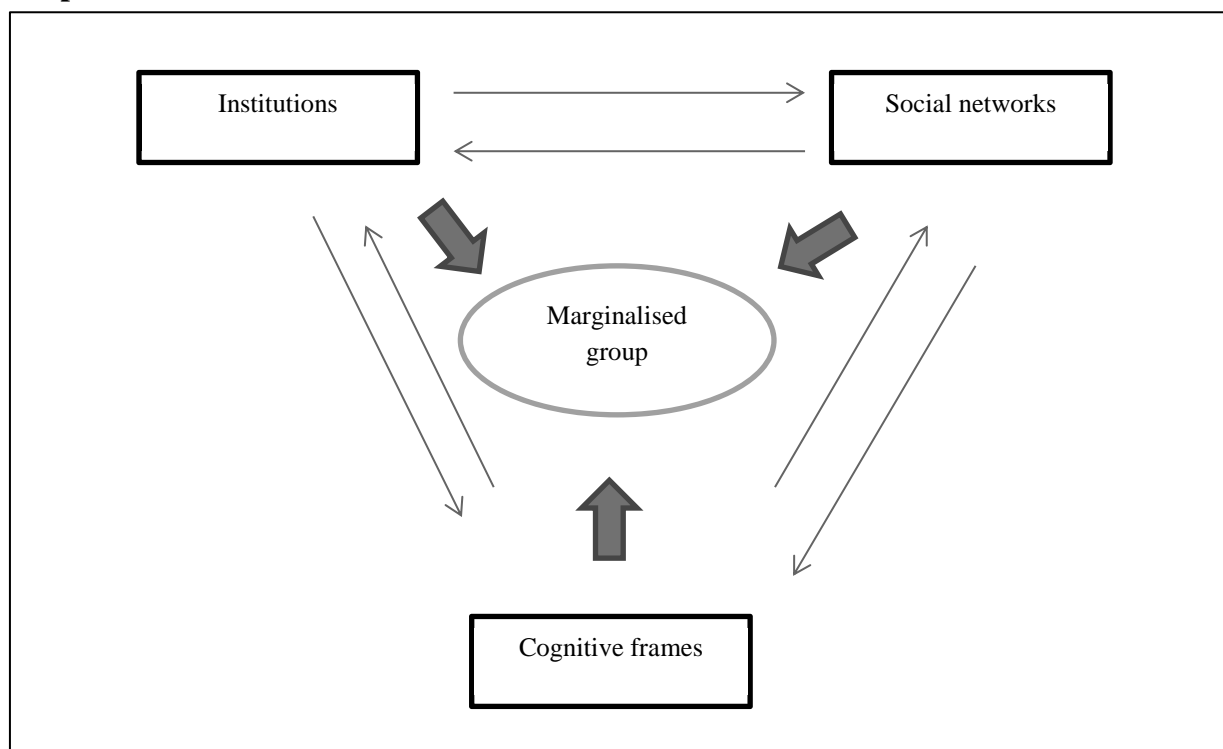
This shows that during the *life cycle of the programme, the innovation and diffusion phases cannot be separated. The programme emerges in a continuously evolved form in new villages, or spreads on within a given settlement.*

### 3.9 The most important conclusions about the extended social grid model and social innovation

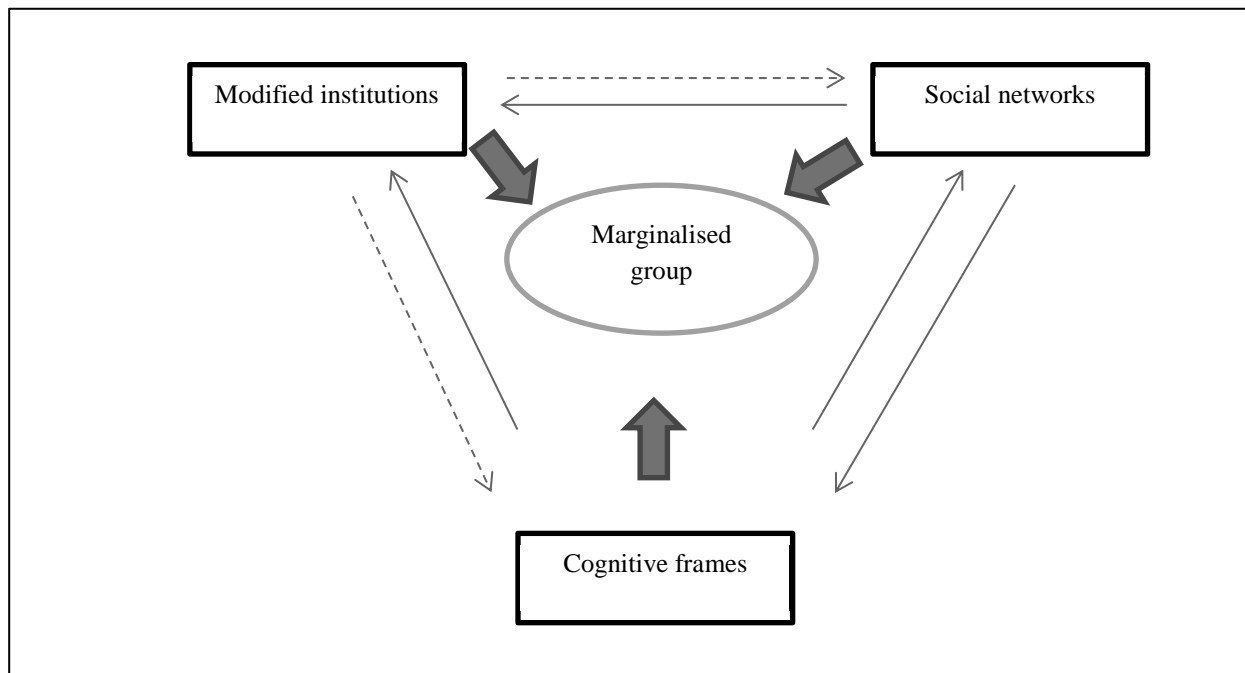
1. If Beckert's all three social forces and their interactions play a role in the reproduction of marginalization, then we can logically assume that it is not enough to intervene at one point only. If social innovation aims at changing only one component, then the other two social forces can act to reproduce the original situation in the long run.

**Figure 2: The reproduction of marginalization in case of unsatisfactory intervention**

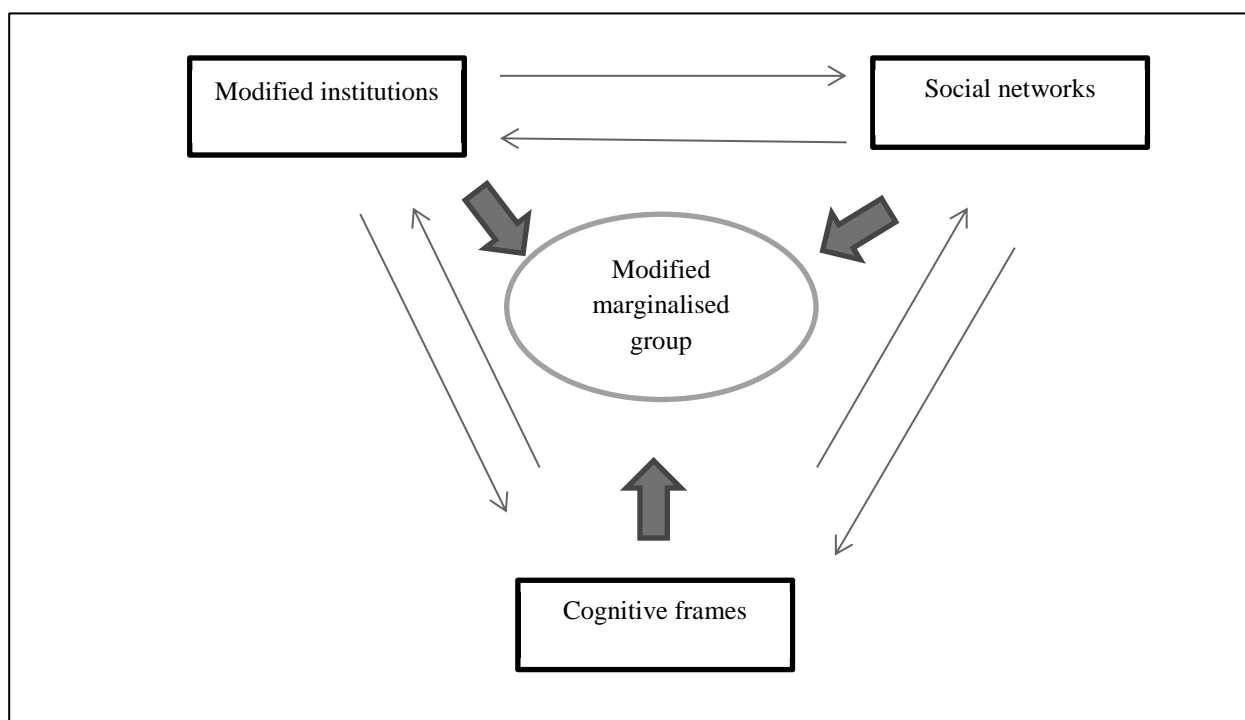
#### Step 1



## Step 2



## Step 3



Examples for this include profit-seeking or even sustainable microlending to the poor. This social innovation intervenes with the cycle at one point by changing the institutional system

of lending. In the newly created institutional system (e.g. Grameen Bank) clients earlier not qualified as bankable may get a loan. However, there are more and more experiences proving that this intervention did not reduce poverty, and often even increased marginalization (Bateman, 2010; Ghosh, 2013).

*It is my hypothesis that in case of the continuous reproduction of marginalization, social innovation must target all three social forces – institutions, social networks and cognitive frames – directly. Institutional changes are not satisfactory by themselves.*<sup>173</sup>

2. In case of SIMs, it is helpful to separate three types of cognitive frames; attention should be paid to modify all of them:

- the cognitive frame of the environment about the marginalized group;
- the cognitive frame of the members of the marginalized group about themselves, with special regard to personal and collective self-esteem and learned helplessness;
- the cognitive frame of the environment about the social innovation itself.

It can be hypothesised that changing the cognitive frame of the participants, namely reinforcing their agency and independence is a necessary condition of the success of a SIM. *It is questionable if novel social programmes targeting marginalized groups without targeting the strengthening of the agency of the participants could be considered as SIMs.*

3. An important role of SIMs is building networks, especially *inter-community bridges between marginalized and non-marginalized groups*. Conceptually it is not clear how inter-community connections should be classified by the capability approach: personal trait, initial endowment, or social conversion factor.

4. Building trust between the participants and operators of social innovation is a prerequisite of maintaining participants' willingness, building and reinforcing their self-esteem and eventually ensuring the success of the programme.

5. The analysis of the Kiútprogram has shown the role of economic, political and ideological power. The technology of cucumber production is an example for artefactual power (see the case study for more detail). At the same time, *social ties and knowledge* proved to be important power resources, which is not present in Mann's model.

6. In case of Kiútprogram, the innovation (eco)system approach did not seem applicable perhaps because of the diverse and diffuse nature of the programme (or, at least, I was not able to apply it to the programme). In contrast, the concepts of *transition management* –

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<sup>173</sup> To support the hypothesis I mention another case. In a region where Kiútprogram works, a non-governmental organisation sued the local government for school segregation. Following the ruling of the court, an important institutional change happened: the municipality closed the school that only Roma students attended and the students were reassigned to neighbouring schools. However, neither the teachers nor the Roma students and their parents or the students/parents in the receiving schools were prepared for this change, i.e., no attempts were made to modify their cognitive frames. As a result, the parents of the Roma students asked the original situation to be restored. It did happen eventually, utterly reassuring segregation.



*knowledge, as a meta-condition, access (or admission), willingness, strategies and skills – was very helpful in the analysis, primarily from the participant's side. There is a strong correspondence between transition management and the capability approach.*

7. In case of a SIM it should be considered that it may have different effects on various marginalized groups. If a social innovation targets the least marginalized only, then the marginalization of the others could even worsen. In case of a normative social innovation definition, it seems practical to expect the Pareto-efficiency.

8. *There is a trade-off between the degree of marginalization of the participants and the costs of the social innovation.* The dogma of sustainability as a policy requirement for microcredit is an obstacle to the implementation of inclusive, social microcredit. To my hypothesis, this statement is true for all social innovations targeting the most marginalized groups. However, the removal of sustainability as a requirement may lead to irresponsible spending of external financial resources. This danger can be reduced by co-financing from public and private funds.

9. The CrESSI definition of social innovation includes the possibility that the social innovator is the state. The Hungarian public works system could be an example for this, since its declared goal is to improve the circumstances of permanently unemployed, undereducated people. At the same time, we could see that this system only reproduces marginalization and strengthens paternalism instead of agency. 'We consider social innovation as relevant phenomenon of bottom-up change' (Chiappero-Martinetti and Jacobi, 2014, p. 6). The comparison and the conflict of the Kiútprogram and the state public works system prove the validity of this bottom-up approach.

10. From the innovation models, Kiútprogram clearly shows the characteristics of the *interactive learning model*. During the life cycle of the programme, innovation and diffusion phases cannot be separated. It may be hypothesised that in case of social innovations where the modification of the cognitive frame of the target group is one of the objectives, this is a general feature of the innovation's life-cycle.

11. The plurality of objectives is an important characteristic of SIMs. Creating economic space for social innovation has a non-economic condition, needs public discussion, a democratic understanding and acceptance.

12. In case of programmes supporting social innovation sponsored by the EU or national administrations, *a more flexible support system would ensure greater efficiency even with an unchanged amount.*

13. It should be considered if – in case of the most marginalized, e.g. Roma – European institutions could create an economic space for social innovation beyond the current – very narrow – scope of pilot programmes directly, not through the affected national administrations.

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